

ALJ Shaw: ITC is a Viable Forum for Enforcement of SEPs

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The public version of ALJ Shaw's Initial Determination (ID) in U.S. International Trade Commission (ITC) investigation *Certain Magnetic Data Storage Tapes and Cartridges Containing the Same*, Inv. No. 337-TA-1012 (1012 Investigation), provides important guidance on enforcement of standard-essential patents (SEPs) in the ITC. Respondent and accused infringer Sony argued that several of the patents asserted by patentee Fujifilm were essential to the LTO-7 standard (relating to "linear tape open" magnetic media) and therefore that Fujifilm had waived its right to injunctive relief and was obligated to license its patents on FRAND terms. ALJ Shaw ultimately found that Sony had not met its burden of demonstrating essentiality, but he nevertheless provided helpful instructions on the quantum of proof necessary to make out such a claim, as well as other factors relevant to ITC enforcement of SEPs, all of which affirmed that the ITC is a viable forum for enforcement of SEPs. In sum he ruled that:

- The party arguing that a patent is essential bears the burden of proof on that point;
- Unless a patent is, in fact, essential to a given standard, there can be no breach of the standard-setting organization (SSO) agreement(s) giving rise to the FRAND obligation at issue;
- Breach of an SSO agreement and of forum selection clauses are not valid defenses in ITC investigations; and
- Respondents bear the burden of proving that a complainant/patentee relinquished its rights to equitable relief by joining the SSO in question.

1. Background

The dispute between Fujifilm and Sony is worldwide and encompasses two pending ITC investigations, 3 IPRs, and infringement actions in the Southern District of New York and Japan. Fujifilm brought an ITC complaint on May 27, 2016, alleging that Sony magnetic tape media (specifically, Sony's linear tape-open, or "LTO," products) infringed six Fujifilm patents and seeking a limited exclusion order precluding the importation of those Sony products. LTO, according to the complaint, "is a magnetic tape storage technology developed ... as an open format by a private consortium comprised of Hewlett-Packard, IBM, and Quantum." Sony responded with a public interest statement saying that the asserted patents had been declared essential to the LTO standard LTO-7 and were therefore subject to fair, reasonable, and non-discriminatory ("FRAND") licensing requirements. Sony's response to the complaint also raised a number of FRAND-related defenses. Sony claimed that an exclusion order was contrary to the public interest because Fujifilm had not met its FRAND obligations, that Fujifilm's assertion was patent misuse, that Fujifilm, by participation in the standards process, had implicitly waived exclusionary relief as a remedy against infringement of LTO SEPs by willing licensees like Sony, and that Fujifilm had committed breach of contract because the AP-75 license obligated Fujifilm to offer FRAND terms to Sony and not to seek to enjoin the importation of Sony's LTO products. Fujifilm disputed that the patents were FRAND-encumbered.

2. The Initial Determination

ALJ Shaw, in his Initial Determination (issued on September 1, 2017, with the public version issuing on October 3, 2017), found a violation as to two asserted patents, one of which Sony contended was standard-essential. He recommended that the ITC issue an order excluding the accused Sony products and other order barring Sony from selling or marketing the products within the United States. Sony had not met its burden on its affirmative FRAND defenses, he ruled, for several reasons.

Foremost, Sony had not established that asserted patents were FRAND-encumbered. Because Sony failed to show that the patents were essential, there was no basis to conclude that Fujifilm had any kind of attendant FRAND obligation. Whether Sony was a willing licensee was inapposite, as was the question of whether Fujifilm had satisfied obligations the relevant SSO documents impose on SEP holders.

Additionally, ALJ Shaw ruled that breach of contract is not a cognizable defense in the ITC. The By statute, the ITC is directed to investigate and adjudicate unfair trade practices, including some forms of patent infringement. Citing *General Protecht Group, Inc. v. Leviton Mfg Co.*, 651 F.3d 1355, 1359 (Fed. Cir. 2011), ALJ Shaw ruled, a breach claim has no bearing on the ITC's statutory objective.

ALJ Shaw also ruled that, even if asserted patents were FRAND-encumbered, Sony failed to show that such an encumbrance could preclude Fujifilm from seeking exclusionary relief.

Finally, ALJ Shaw rejected Sony's various other equitable, FRAND-related arguments. The record did not support a conclusion that Fujifilm's licensing practices "impermissibly broadened the physical or temporal scope of its patents, in a manner that has anticompetitive effect." Consequently, Sony's patent misuse claim failed. Nor was there clear and convincing evidence that Fujifilm relinquished material rights in its patents, defeating Sony's waiver defense. The relevant SSO documents, at best, provide only an option to license SEPs and not an implied license, and Sony failed to identify any sale that could support a claim of exhaustion.

Though the ITC delegated to ALJ Shaw the issue of taking evidence on the question of whether an exclusion order would be in the public interest, the ID does not contain explicit findings on this point. From the finding of violation and the rejection of Sony's equitable defenses, one can infer that ALJ Shaw did not find exclusionary relief to be against the public interest.

3. Conclusion

Whereas some courts and commentators have proposed or adopted a policy-oriented approach to the issues of whether and how one may enforce SEPs, ALJ Shaw approached the issue as a matter of contract and evidence, an approach also endorsed by former ALJ Essex. Tellingly, in the unredacted portions of the public ID, little time is spent addressing policy implications of the parties' arguments. Instead, ALJ Shaw simply states the parties' burdens on various points and weighs the record. Sony, the party advancing the argument that asserted patents are standard-essential, had the onus to prove that point. Sony's failure to do so led ALJ Essex to reject Sony's defenses. Likewise, ALJ Shaw rejected various of these defenses on the ground that Sony did not adduce evidence that the encumbrance at issue here restricted SEP holders in the ways Sony suggested. There was no evidence, e.g., that the FRAND encumbrance on LTO-7 SEPs precluded exclusionary relief.

This ID further demonstrates that there is no bar, per se or de facto, on assertion of SEPs in the ITC. Whatever policy implications flow from the assertion in the ITC of patents that are or could be standard-essential, the ITC will simply approach the arguments as any other contention, imposing on parties the familiar burden of supporting their claims.

The ITC will continue to be an important forum for enforcement of patents whether they be SEP or otherwise. Potential licensees seeking to hold out on the basis of a patent being an SEP or potential SEP should carefully consider their risks and understand the evolving case of the ITC jurisprudence.

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